RECENT DEVELOPMENTS IN TAXATION IN ENGLAND

How to finance social reform side by side with the provision of a heavier insurance for commercial and territorial security is the twin problem which has become more and more engrossing during the past five years of Liberal administration. The present Government, despite the fact that its first enormous majority was returned in 1906 strongly pledged to avoid the great increase of national expenditure which had marked the career of its Conservative predecessor in office, has found itself face to face with the necessity of providing for an ever-growing expansion of public needs. Almost without exception, the estimates of the State Departments have gone up, and in many instances the local bodies have emulated the national authority, either of their own accord, or more generally, because they have been compelled by recent legislation to undertake duties which involve very considerable outlay.

Peace, retrenchment, and reform—the watchwords of the Gladstonian epoch—have required a new interpretation under a change of circumstances and a more modern conception of the range of the State's functions. To preserve the security of the Empire and to meet the altered strategic relations of the Great Powers is today costing seventy-two millions, as against the forty-five millions of only twelve years ago; the reforms which are most in favor and which have been projected or put in working are of an economic and social character entailing large and growing expense; as a natural corollary, retrenchment, except among a small and dwindling section of the party has gone out of fashion, although it is still emblazoned, nominally, on the party banners. The Prime Minister has quite recently noticed the readiness with which the House of Commons disposes itself, sometimes with no very grave sense of its responsibilities, to enlarged expenditure during the passage of Government measures, and in introducing his Insurance scheme for Sickness and Invalidity last April, the Chancellor of the Exchequer expressly warned his supporters that without recourse to further taxation it would be impossible to make larger provision, and that his financial proposals must not be interfered with. Outside Parliament, however, there is a widespread feeling in favor of the establishment of an impartial Committee for the examination and control of the estimates of the great spending Departments. This project, admirable as it is

in intention, labors under the disadvantage of cutting athwart the constitutional responsibility of the Executive.

The three great factors which contribute most significantly to the constantly increasing total are the military and naval services, and the civil service charges for education, unemployment, labor exchanges, and for old age pensions under the Act of 1908 and its extension of the present year. The magnitude of the financial problem may be seen when it is remembered that while the cost of the army remains fairly stationary at about 27 millions, the navy for which 33 millions had to be provided in 1906 now demands over 44 millions; pensions for which the first estimate in 1908 was 6 millions, now account for 13 in the estimates of the forthcoming year; civil service and educational burdens on the central authority have risen in the last five years from 33 to 47 millions: and the whole national expenditure under all heads has increased from 150 millions to a grand total of 181 millions sterling.

What has been the financial policy inaugurated and developed by the Liberal Chancellors for meeting this vast accretion of responsibilities?

Three lines of advance may broadly be traced: (1) a settled and continuous policy of reducing debt liabilities and of placing national obligations on a more satisfactory financial basis; (2) a progressive increase of direct taxation with a few, though important, concessions to the indirect taxpayer; (3) an attempt to arrive at a more scientific and permanent relationship between national taxation for general purposes and local taxation for services mainly affecting the inhabitants of the various local areas. It is manifestly impossible within the narrow compass of this article to do more than briefly sketch in outline the chief incidents in the history of the development of this policy; yet it is essential, in order to understand the present position and the main points in controversy, both with regard to taxation and finance, that summary consideration should be given to them.

When the Liberals assumed office in 1906 the foundations of national credit, which had been somewhat shaken during the Boer war period, had first to be strengthened: this was an inevitable preliminary to the safe raising of the superstructure of economic and social reforms which the administration was bound to undertake, or court disaster at the hands of the representatives of labor who had rapidly grown in numbers and influence.

Both prior to, and during the war a lax policy of incurring separate debt charges on account of military and naval works had prevailed, and there had been a very considerable increase of floating debts. Under the former head, the total in 1906 was nearly 50 millions, whereas it had been less than 4 millions in 1898. The floating debt which at the latter date stood at eight millions had increased more than fivefold in the succeeding seven years; and, in addition, the huge War Loan of £30,000,000 had to be rapidly redeemed. Altogether, the aggregate gross liabilities of the State which before the war amounted to 635 millions had risen to 794 millions in 1904, and had only been reduced to 789 millions when the Liberals took office. During their first three years the new administration overhauled the main heads of debt charges, largely diminished the practice of providing for public works for the army and navy by short term loans, and reduced the funded and unfunded debt total at an average rate of nearly fifteen millions a year. The pace of debt extinction has slackened in the last two years, in some measure owing to a prevalent feeling that the immediate urgency of maintaining national credit has been, for the time being, sufficiently met; but mainly on account of the demands of the enlarged social programme on which it has been necessary to embark, and of the insatiable requirements of the naval situation.

Coming now to the second line of progress in direct and indirect taxation, a short review of the earlier budgets for which Mr. Asquith was responsible may serve to explain the determining factors of the position when the Finance Bill of 1909, in addition to larger levies of the older taxes, introduced a novel system of valuation, included fresh subject matters of taxation, and inaugurated hitherto untried methods of assessment which are now in working, and for which rules of practice are gradually being evolved in this latest and epoch-making application of the principles of politico-social taxation.

By the budget of 1906 the export duty on coal which had been imposed as a war duty was repealed, and a commencement towards reducing existing taxes on articles of food was made by lowering the tea duty from 6d to 5d a pound. The free trade principles on which the Government had come into power found logical expression also in the practical abandonment of the differential rates on stripped unmanufactured tobacco. In all, the customs reductions amounted to a remission in favor of the indirect taxpayer

of nearly four millions a year. In the debates repeated and insistent demands were made for the taxation of land values as a complementary source of revenue, but the psychological moment for tackling this knotty problem had not yet come. At the same period a Committee was appointed by the Government to inquire into the working and incidence of the income tax, with a view to the adoption of some system of differentiation and graduation which might ensure greater equity in taxation and more fruitful returns to the Exchequer.

The budget of the following year, 1907, furnished the first definite adumbration of Liberal financial policy. Its main features were a very large appropriation towards the reduction of debt, and the provision made that, for the future, the whole outlay on public works should appear in the estimates instead of being met, as they had been during the previous decade, by short term loans. The existing indirect taxation was still retained. Direct taxation remissions and impositions for the year virtually balanced. On one side of the account, the income tax rate on "earned" incomes, when the total income did not exceed £2,000, was lowered from a shilling to ninepence in the pound: on the other hand, the Estate Duties on properties exceeding £150,000 in value were increased. Under the new progressive scale, the payments in respect of the largest estates were very considerably enhanced, as is seen from the table on the following page. For the sake of convenience of comparison the changes made later in 1909 are also included. Examination shows that the number of different rates rose from twelve to seventeen in 1907, thus making the graduation easier and more equitable. Since 1909 there are fifteen rates, and the highest five classes of the 1907 scale pay a uniform 15 per cent, or practically double the Death Duties paid previously on all the largest estates.

Some points arose in the discussion of this budget which are still of vivid interest inasmuch as the difficulties they suggest are yet unsolved. The recasting of the Estate Duties brought again into prominence the problem of the relation of Imperial to Local Finance—a problem which in 1911 is still under consideration, and which has been made even more pressing for solution in the interval. It may be recalled that Mr. (afterwards Lord) Goschen in 1888 adopted the policy of handing over certain allocated or assigned revenues to the reformed local authorities, the county and borough councils, to meet their growing needs for expansive rev-

ESTATE, ETC., DUTIES		RATES OF DUTY PER CENT — Where the Death Occurred: After Aug. 1, 1894, and before Apr. 19, 1907	After April 18, 1907, and before Apr. 30, 1909	After Apr. 29, 1909
Estate Duty—On the principal value of all property passing on death occurring after August 1, 1894.				
Where the Principal Value of the Estate				
EXCEEDS £	AND DOES NOT EXCEED £			
100	500......	1	1	1
500	1,000......	2	2	2
1,000	5,000......	3	3	3
5,000	10,000......	3	3	4
10,000	20,000......	4	4	5
20,000	25,000......	4	4	6
25,000	40,000......	4½	4½	6
40,000	50,000......	4½	4½	7
50,000	70,000......	5	5	7
70,000	75,000......	5	5	8
75,000	100,000......	5½	5½	8
100,000	150,000......	6	6	9
150,000	200,000......	6½	7	10
200,000	250,000......	6½	7	11
250,000	400,000......	7	8	11
400,000	500,000......	7	8	12
500,000	600,000......	7½	9	12
600,000	750,000......	7½	9	13
750,000	800,000......	7½	10	13
800,000	1,000,000......	7½	10	14
			on one million / on remainder	
1,000,000	1,500,000......	8	10 / 11	15
1,500,000	2,000,000......	8	10 / 12	15
2,000,000	2,500,000......	8	10 / 13	15
2,500,000	3,000,000......	8	10 / 14	15
3,000,000	......	8	10 / 15	15
Settlement Estate Duty—On principal value of *Settled* property passing on death....................		1	1	2
This duty is levied in addition to the Estate Duty.				

enue, and as a substitute for the major portion of the annual Parliamentary Grants in Aid which, in gradually heavier amounts, had in the previous half century been paid towards defraying local expenditure on police, poor relief, roads and education. The chief heads of assigned revenues were:—(a) Part of the Estate Duty (then the Probate Duty); (b) Licences for the sale of intoxicating liquor, dealing in game, tobacco, etc.; (c) Surtaxes on beer and spirits. The motive behind the selection of the Estate Duties was

that personalty equally with realty might thereby contribute towards local expenditure; licences had, in accord with economic theory, been generally regarded as elements of taxation which might properly be allocated to the discharge of local expenditure, inasmuch as the holders largely benefit from it; and it was intended that a share at least of the "whiskey money"—the colloquial term for the surtaxes—should go towards the promotion of technical or higher education, the remainder to the general relief of local burdens. However, in the intervening twenty years the grievous disadvantages, both from an administrative and financial standpoint, of this system of assigned revenues had forced themselves on public attention. Experts were agreed both on the impossibility of earmarking certain payments into the Exchequer, or intercepted on their way thither, and also on the fallacy underlying any statement that those sums constituted the exact contributions made to the local bodies. In practice all subventions towards local expenditure made by the central authority come out of the general purse, and for the sake of clearness and completeness all payments into and out of the Exchequer should appear in the national accounts.

Accordingly in the Finance Act of 1907, strengthened and enlarged by that of the succeeding year, equivalent payments were provided to be paid out of the Exchequer for the Estate Duties; and the surtaxes, and the licences were handed over for collection, but with no powers of altering the levy, to the local authorities. By these means it was expected that while the form of the public accounts would be improved, local finances would not suffer. The latter hope has not been fulfilled, and much of the dissatisfaction expressed by opponents of the Government during the debates on the budget of 1909, and since, is attributable to this fact.

Perhaps the most significant feature of the passage of the budget of 1907 was the general and tacit admission that the Income and Property Tax could no longer be regarded as a source of revenue to be reserved for occasions of war and great emergency, but was to form a permanent pivot of British finance. The older and time-honored policy was to keep the tax within narrow limits in normal circumstances so that its efficacy for raising additional revenue in periods of stress might not be unduly impaired. The widening of the franchise and the growing political power and interest of the working classes had, however, gradually made their influence felt on the choice of fiscal expedients. The normal 5d

rate of the eighties, had become the average 8d of the nineties, and now, in spite of middle-class protests, the tax seemed to have become a permanent revenue agent at the rate of a shilling or more in the pound. Moreover, the idea, foreign to the scheme of Peel on the revival of the impost in 1842, that insecurity of income should be taken into account in adjusting taxation had rooted itself firmly in public favor, and the Dilke Committee had provided much valuable comparative material gleaned from the practice of other countries. Evidence was gradually accumulating to show that the high rate which threatened to become permanent, coupled with any further extension of the system of abatements or allowances, would make the working of the Income Tax Acts more and more intricate and involved. The tendency to insist on stricter and more comprehensive returns of all incomes must inevitably mean much closer supervision and greater friction: yet in spite of all obstacles, public opinion was in favor of an attempt to put in practice a system of differentiation between incomes "earned" and "unearned." Attention should, however, be drawn to the fact that no "supertax" was, as yet, added to larger incomes, this fiscal contrivance being restricted to the greatest of the Inheritance Taxes—the Estate Duties, which have always been regarded as complementary to, and a corrective of, any inadvisable and unfair incidence of the income tax on labor and ability. The burden on income was in this budget mitigated to the extent of a million and a quarter, the resultant gap in the revenue being filled by an additional equivalent levy from property—a policy which was evidently and confessedly an extension of the principle of the Harcourt Budget Scheme of 1894.

Whatever force there might be behind the objections to Free Trade finance on these lines, there could be no question of its success from the point of view of the Treasury. In the budget of 1908 (introduced for special reasons and contrary to custom by the Prime Minister) Mr. Asquith was not only able to remit more than one half of the sugar duties which in the previous year had brought in nearly seven millions sterling, thus giving a gratifying stimulus to the sugar-using trades, but the surplus at his disposal also allowed him to allocate 15 millions to debt reduction and over a million to the preliminary establishment of the Old Age Pensions Scheme. In a year when most of the nations of the world had suffered from acute commercial and financial crises the sound position of English finance was a source of universal satisfaction,

except perhaps to those who looked for a run of bad years to achieve a change of fiscal policy.

However, as had been generally anticipated, the effects of the bad trade of the year 1908 were reflected in the revenue returns, the consumption of alcohol continued to diminish, and in the spring of 1909 trade recovery was not yet sufficiently marked to warrant any very cheerful estimates of revenue from the old sources. In spite of the efforts at economy of the new Chancellor, Mr. Lloyd George, expenditure in all the great spending departments had still a strong upward tendency. The figures were:—Exchequer issues in 1908-9, £152,292,000: estimated expenditure during 1909-10, £164,152,000; the increase of 12 millions going, to the Army 1½ millions, to the Navy 3 millions, to the Civil Service charges for Pensions and Education 7½ millions. Allowing for the prospective diminution of 3 millions from Customs and Excise, and making provision in the new year for Development Grants (£200,000); Labor Exchanges (£100,000); Land Valuation (£50,000); and Road Improvements (£600,000), the Chancellor was confronted by the vision of a final deficit for the year of 16¾ millions.

To meet this he withdrew 3 millions from the Sinking Fund as a set off to the expected drop in revenue, and proceeded to raise the remainder by taxation. Adopting the ordinary classification of taxes, the shortage was to be filled in by almost equal contributions from taxation of both kinds. The total of £6,700,000 from indirect sources was made up of:—Liquor licenses (£2,600,000), Motor Car licenses (£260,000), Tobacco (£1,900,000), Spirits (£1,600,000), Petrol (£340,000). The direct taxation total comprised:—Income Tax (£3,500,000), Estate Duties (£2,850,000), Stamps (£650,000), Land Value Duties (£500,000). The estimated surplus of nearly half a million was to be allocated, if realised, to a fund for the purpose of fostering agricultural and economic development—a project which evoked much trenchant criticism and as strong support. Opponents contended that the policy indicated was a retrograde step and financially unsound; any realised surplus should in accordance with custom be handed over to the Old Sinking Fund for the extinction of debt. A counter plea was raised that the circumstances of the times called for a new departure, and a generous use of surplus funds for schemes of afforestation, land reclamation, etc.: partly with the object of coping on national lines with the question of unemployment, and

partly for the enlargement of State domains and resources, and the promotion of coöperative enterprises with State encouragement and support.

The complicated nature of the new scheme of taxation, touching as it did nearly every side of the revenue system, and the speculative character of some of the novel elements incorporated, made it very difficult to forecast results. But the general outlines showed sufficiently clearly that in the opinion of the Government the opportune moment had arrived for a sharp and determined forward movement along the line of politico-social taxation.

Hitherto, indirect taxation had been confined to a few articles with a good yield, and that limitation (which was the characteristic keynote of differentiation from the policy of the Tariff Reformers) had only been made possible by the gradual extension of the income and property taxes. Fiscal needs now urgently called for all-round contributions, and the heavier demands on indirect taxpayers were openly justified (even by that class of politician which under the older Gladstonian régime would have insisted on remission of taxation as the first duty of a Liberal financier) as an easy and proper means whereby the industrial classes, on whom the pressure of such taxation perhaps most heavily falls, might contribute towards the various schemes of social amelioration from which they would most immediately benefit. To have gone back to increases of the sugar and tea duties would have stultified the previous policy of cheapening food to which the Government was pledged. Of commodities in general consumption, only tobacco and spirits remained; and although they were already highly taxed, still being generally looked upon as luxuries and not necessary for efficiency, they might be considered good subjects for producing some of the extra revenue required.

Apart from a ridiculously trifling import duty on foreign beer —imposed as an afterthought from motives of party expediency— the increased revenue from indirect sources came from a 30 per cent rise in the spirits duty, and 20 per cent in that on tobacco. Severe criticism arose from the representatives of the whiskey distilling countries, Scotland and Ireland, on the ground of unfair discrimination, as English beer was not further directly taxed: for political reasons connected with the constitutional crisis, however, the opposition was not pushed to extremes. Tobacco manufacturers and dealers protested also, since, as they contended, the small increase (rather less than 8d a pound) could not easily be

transferred to the general body of consumers and would have to be borne by themselves, with the probable result that many of the smaller businesses must collapse. A fairly heavy increase in the license duties had been generally anticipated; in part, because the scale of payment for hotels, restaurants and public houses which had been in existence since 1880 unduly favored the big establishments that had sprung up, in the great urban centers particularly, during the preceding decade; and for the further reason that the Government's Licensing Bill for the more rapid extinction of unnecessary retail premises had been thrown out by the House of Lords. Brewers and publicans denounced the new scale as oppressive and revengeful. Under it the licenses were fixed at 50 per cent of the valuation of the premises: this severity of treatment has since in some measure been modified by concessions. The tax on motor cars, arranged in proportion to size and cost, had been foreshadowed for some years owing to the enormous wear and tear caused by such vehicular traffic, and the loud complaints of the local authorities who were put to serious expense to maintain the main roads. To pacify the responsible bodies the proceeds of this duty was handed over to them, although collected by the central authority.

A part of the budget scheme to which strong exception was taken by the commercial and professional classes was the enhanced duties on stamps. Most varied interests were affected adversely by this serious increase of the burden on transactions. The duties on conveyances and leases, and on bearer securities were doubled, and those on contract notes considerably raised. The harassing and vexatious effects on business of these further impositions were pointed out, and insisted on. As was expected at the time, experience has shown the necessity of concessions which, to a limited extent, have since been granted.

In the sphere of direct taxation the proposals which afterwards formed part of the Finance Act of 1910 were such as to stir up the bitterest feelings of resentment on the part of property holders. They consisted of: (1) A rise in the tax on "unearned" incomes from 1s to 1s, 2d in the pound; (2) a "supertax" imposed on all incomes over £5000, at the rate of 6d in the £ on the amount in excess of £3000; (3) Estate Duties on estates exceeding £5000 in value were increased—for the largest estates practically doubled; and Settlement Duty was raised from 1 to 2 per cent, with an upward revision of the rates of Legacy and Succession Duty on

collaterals—amounting to a doubling of the rate on the more distant connections; (4) an entirely new series of taxes on land, under the general heading of Land Value Duties.

The first proposal was an extension of some 16 per cent of the exceptional receipts from property which had been inaugurated in 1907, and its effect was thus to add very substantially to the weight of that portion of the general levy which falls on property incomes. The supplementary or super-tax on incomes beyond £5000 is officially estimated to be applicable to only some 10,000 taxpayers, and it received hostile criticism on the ground that it singled out that small class for exceptionally severe treatment, and would conduce to evasion. Possible danger, moreover, might lurk in the hardship it imposed on persons in receipt of moderate-sized "unearned" incomes which were the product of a lengthened exercise of thrift; even in the case of the more wealthy classes, the imposition might trench on capital, as inordinate taxation of property must in the long run do. At the other end of the scale, a very popular feature in connection with the income tax was introduced in the form of relief granted, on incomes between £160 and £500, of £10 for each child under 16 years of age: this at the rate of 9d in the £ was equivalent to an individual remission of seven shillings and sixpence for each child. Without doubt this abatement has been much appreciated by lower middle-class taxpayers. Relief was further granted to landowners in respect of assessment of income from lands and houses, a higher percentage of deductions being allowed on account of maintenance, repairs, and improvements. These two features were estimated to cost the Treasury £640,000 and £500,000 respectively.

In many quarters, even where the proposals were on the whole approved, doubts were expressed whether these large additions to taxation of property and income might not miss even the crude justification of being financially successful. Taken in conjunction with the steep rise in the death duties, indicated in the table on a previous page, it was feared that a considerable drain on capital might result. This particular point received special emphasis from the projected falling off in the repayments of debt, and from the want of elasticity which had begun to be manifest in the returns from the Death Duties.

The conflict of political discussion raged longest and most fiercely round the novel series of land value duties. The new subjects of taxation, and the budget estimate of gain to the reve-

nue in the year of first imposition, were: (1) *Increment Value Duty,* of 20 per cent on the increment value of any land accruing after April 30, 1909, to be paid on the occasion of any transfer or sale, or, in the case of land held by a corporate body on trust, periodically—£20,000; (2) *Reversion Duty,* of 10 per cent of the value of the benefit accruing to the lessor on the determination of any lease of land (excluding leases for 21 years and less)—£90,000; (3) *Undeveloped Land Duty,* at the rate of ½d in the £ on the capital value of undeveloped land, judged by the capacity to which it might be put—£140,000; (4) *Mineral Rights Duty,* to be paid yearly at the rate of a shilling in the pound on the rental value of all rights to work minerals and of all mineral wayleaves—£350,000.

For the purposes of these duties a valuation is to be made of the site value of all land. The land is to be deemed to be sold at the time in the market by a willing seller in its then condition, free from incumbrances and from any burden, charge, or restriction, other than rates or taxes, or improvement charges under local Acts. It is further to be considered sold, subject to any public rights of way, any rights of common, and any covenant or agreement restricting the use of the land entered into before the date of the Bill, or at a later period, if the restraint imposed is considered by the special valuation commissioners[1] to be desirable in the interests of the public, or in view of the character and surroundings of the neighborhood.

The site value is defined as the amount which the land might be expected to realize if sold at the time in the open market by a willing seller, and if divested of any buildings or other structures, including fixed machinery, growing timber, fruit trees, etc. Deductions may be allowed by the Commissioners of the value directly attributable to any works executed or any capital expenditure incurred for the purpose of improving the land as building land, or for the purpose of any business, trade, or industry other than agriculture, and of any expenditure on redemption of land tax, enfranchisement of copyhold, or purchase of goodwill, or on re-

[1] The Special Valuation Department set up for the purposes of the Act at present consists of: one chief valuer, fourteen superintending valuers, forty-nine first grade valuers, 107 second grade valuers, three technical assistants. These established officers constitute the permanent staff. In addition there are 623 temporary valuers and assistants, with three consultants on the subject of minerals, and seventeen technical assistants, making 643 unestablished officers, which do not include clerks and draughtsmen.

moval of buildings, timber, etc. The owners must furnish all necessary particulars, and the Commissioners will proceed to draw up their provisional valuation. A copy is to be served on the owner, and the value thus assessed is to stand, unless objection be lodged by the owner. Appeals by aggrieved persons go first to one of a panel of referees appointed under the Act, with a final option of carrying the case for decision to the High Court of Appeal.

A quinquennial valuation of all undeveloped land is to be made for the purpose of assessing the duty payable. Land is to be considered undeveloped if it is not used for the erection of dwelling houses or of buildings for the purposes of any business, trade, or industry other than agriculture. Developed land may, however, revert to the condition of undeveloped land if, for one year, the buildings are allowed to become derelict, or the land ceases to be used for any of the progressive purposes before mentioned. Even if the land is not used for such purposes, it may escape the undeveloped land tax if at least £100 an acre has been spent on improvements within the ten preceding years, or if the site value does not exceed £50 an acre, or the land is being kept free from buildings in pursuance of a definite and approved scheme for the betterment of the district, or is used genuinely for purposes of public recreation.

Land used simply for the purposes of agriculture is not made exempt from valuation; but where such land has no higher value than its market value at the time for agricultural purposes, and where the estate is in substance an agricultural estate, it is regarded as having an agricultural value only, and is practically entirely free from the new taxation. Reversion duty is not charged on the determination of the lease of any land which is at the time of the determination agricultural land; up to its agricultural value such land pays no undeveloped land tax. Increment value duty is not charged in respect of agricultural land while that land has no higher value than one for agricultural purposes only if sold at the time in the open market, or where it is occupied and cultivated by the owner, and where the total amount of that and other land belonging to the same owner does not exceed fifty acres, and the average total value does not exceed seventy-five pounds per acre. Beneficial consideration is extended also on the same lines to the small occupier in the towns, whose house plot is exempt from increment value duty if the annual value of the house is not more than £40 in London, £26 in urban centers of a population of fifty thousand, or £16 elsewhere. Spe-

cial detailed provisions are also made in the Act to avoid double taxation.

The special taxation of land values had long been suggested as a possible, desirable, and fruitful untapped source of revenue. Indeed, a local site value rate on "betterment" of property had been suggested by the Royal Commission on Local Taxation in terms of commendation in 1901, and the second reading of Mr. Trevelyan's Bill with that aim had twice been passed in the House of Commons, in 1904 and 1905, by considerable majorities, when the Conservatives were in power. Now, for the first time such proposals had crystallized into a division of national taxation.

The intentions and anticipations of the Government in incorporating the Land Values Duties in the Budget Scheme, as divulged by the Home Secretary, were: (1) To raise an expanding revenue for the needs of the State; (2) to relieve local rates on occupied property also in a progressive scale, as half the proceeds were originally destined for the aid of the local authorities; (3) to bring land into the market and by lowering its price to make it more obtainable for every object, both public and private; (4) to stimulate building, relieve overcrowding, and promote employment.

Whether this endeavor to advance the general policy of freeing land by means of special taxation will be largely successful or not, it is at the present moment much too early to judge with any certainty. Opponents quite naturally indulge in terms of downright condemnation, while supporters are very probably much too sanguine, both in their estimate of the permanent quota which it may be relied upon to contribute to the national exchequer, and in their hopes of its indirect beneficial effects. So far, however, judging from auctions in the estate markets, land is fetching very good prices; much property is changing hands; several big landed proprietors have sold already, or are contemplating the sale of, parts of their estates; and among certain sections of the agricultural community the all-round conditions and prospects are said to be, on the whole, more encouraging than at any time during the past thirty years. But, needless to say, prudence would suggest that no very positive assertions can be made, as yet. Land taxation, especially in an old country where the most valuable properties are in urban centers, and which involves considerate and equitable treatment of many complicated interests, is inevitably dislocating at the outset. The task of valuation will almost certainly be long and costly. The official estimate is that it will

take five years and cost two millions. If the experience of other countries, e. g. France, is any criterion, those who prophecy a great increase in both time and outlay are more likely to turn out to be correct.

The ultimate results are exceedingly difficult to forecast. Supporters of the policy claim that, although the land value duties have so far given very meagre revenue results (this year they are estimated to yield only £700,000), yet when the first valuation has been made, the machinery set up had sufficient time to work smoothly, and the new duties allowed to mature, they will bring in very substantial sums. A competent authority[2] quite lately estimated the returns at five and a half millions within a few years. The task of prognostication is, of course, made more uncertain and dangerous, owing to the dislocation and delay caused by the rejection of the budget of 1909 by the House of Lords. Caustic critics assert, with some degree of confidence, that the land duties returns will not do much more than cover the expense of valuation, assessment, and collection. On the other hand, the prolonged dispute as to their financial destination seems to indicate a high appreciation of their ultimate value and possibilities.

For many years the municipal authorities have been encouraged to look forward to local taxation of site values for the recoupment of local funds, and as an aid in the discharge of services of a national character which they are bound to administer, such as, education, police, roads, public health and the poor law. The Chancellor of the Exchequer, using the argument that all increments of value could not be attributed to local causes, proposed in his first budget to share the proceeds equally between the Exchequer and the local bodies. Later, when the original disqualification was removed and paupers who had been maintained by the local guardians might become pensioners, he suggested that any monetary relief the local bodies thereby obtained should be paid into the Treasury. This plan being protested against on general grounds of its being unworkable and unfair, not only as between the Exchequer and the local bodies, but also in respect of the latter among themselves, the Government fell back on the method of taking over, on national lines, the whole expense of Old Age Pensions, and at the same time cancelling the grant of half the proceeds of the land duties; the Central Authority was to bear all the expenditure on pensions and retain the entire revenue

[2] Mr. W. M. J. Williams, author of "The King's Revenue," in the *Economic Journal* for March, 1911.

arising from the taxes. As a result of further agitation, the Prime Minister quite lately undertook that this arrangement should only last temporarily, probably until 1913, when perhaps as a result of the reforms to be suggested by the Committee now sitting, local and Imperial finance may be placed on a more satisfactory, scientific, and permanent basis.

In conclusion, reverting for a moment to one of the old taxes, it will be of interest to American readers to direct attention to the actual working of the Income Tax Acts, and to point out that recent experience and the permanent high rate of levy have emphasized the importance of obtaining assessments which agree with the intention of the Legislature that the tax should fall only on net profits. The leading Chambers of Commerce assert, from evidence obtained, that many necessary items of expense are not allowed as deductions, and that traders as a class are unfavorably assessed, when compared with others who derive their incomes from investments and salaries. Quite recently the London Chamber of Commerce has recommended the adoption by the revenue officials of a schedule of such expenses which should be allowed as "depreciations" and "charges against profits." Under the former head they include buildings, wasting assets such as minerals, terminable annuities and concessions, and also fixtures. Among the items of a revised scheme of "charges against profits" they advocate the inclusion of accidental losses not covered by insurance, cost of removal of business, and preliminary expenses of joint stock companies. Suggestions are put forward for the abolition of the present practice of taking the average of the past three years, and in substitution that profits should be assessed on the basis of the previous year. For reasons of maintaining the privacy of the trade interests and the general financial position of the taxpayer, particular objection is urged against the recent demands made, with questionable legal justification, by the revenue officials for the production of balance sheets; the granting only of such information as is absolutely necessary for the immediate purpose of taxation should be compulsory. It is but fair to the present Chancellor to point out that he has shown himself exceptionally open to receive any suggestions for avoiding the irksomeness and irritation of necessary taxation, and it is possible that some of the views put forward may meet with favorable attention within a reasonable period.

J. WATSON GRICE.

London, England.

Revenue of Great Britain
(in pounds)

	1905-6	1907-8	1911-12 (Est.)
Tax Revenue:			
Customs	34,644.650	32,490,000	69,600,000
Excise	35,602,851	35,720,000	
Estate, etc., Duties	17,328,789	19,070,000	25,150,000
Stamps	8,180,000	7,970,000	9,600,000
Land Tax	720,000	730,000	2,700,000
Inhabited House Duty	1,950,000	1,960,000	
Property and Income Tax	31,350,000	32,380,000	41,300,000
Supertax	....	....	3,000,000
Land Value Duties	....	....	700,000
Total	129,776,290	130,320,000	152,050,000
Non Tax Revenue:			
Post Office	16,880,000	17,880,000	25,740,000
Telegraphs, etc.	4,130,000	4,420,000	
Crown Lands (net)	480,000	520,000	500,000
Suez Canal Shares, etc.	1,098,594	1,189,412	1,226,000
Miscellaneous:			
Fee and Patent Stamps	984,000	1,024,000	2,200,000
Receipts by Civil Depts.	529,981	1,184,278	
Total Miscellaneous	1,513,981	2,208,278	2,200,000
Total Revenue	153,878,865	156,537,690	181,716,000

Expenditure
(in pounds)

Consolidated Fund Services:	1905-6	1907-8	1911-12 (Est.)
Debt, Civil List, etc.	40,707,245	42,627,094	37,036,000
Supply Services:			
Army	28,850,000	27,115,000	27,690,000
Navy	33,300,000	31,141,000	44,393,000
Civil Service	28,430,000	30,180,000	34,373,000 12,415,000 (Old Age Pensions)
Customs	931,000	947,000	3,995,000
Inland Revenue	2,217,000	2,275,000	
Post Office	15,978,000	17,527,000	21,082,000
Total Supply Services	109,706,000	109,185,000	143,948,000
		Payment of M. P's	250,000 (£400 a year)
		Insurance Bill Estimate	50,000